

Transition Management

Analytics Focused. Performance Driven.

A post-transition analysis from BlackRock for

County and Municipal Capital Improvement Trust Fund (CMT)

MSCI EAFE Rebalance - CMT

29-Oct-14

For more information please visit www.blackrock.com/tm

BLACKROCK

Executive Summary

Overview

BlackRock was hired by the County and Municipal Capital Improvement Trust Fund (CMT) to rebalance its active global portfolio into 2 new active managers; Invesco and TS&W.

On October 7, 2014 the two legacy managers were terminated. On October 10, legacy assets were transferred into a transition account at BNY Mellon and BlackRock took over portfolio management responsibilities. Next, the 2 target managers provided BlackRock with wishlists for the target strategy in order to develop the trade solution.

Trading

BlackRock began by setting aside approximately 24% worth of securities from the legacy portfolio that overlapped with the target portfolios. These securities were set aside and not traded. A currency hedge was executed at the benchmark point on October 13. This trade moved currency exposures towards target weights at the inception of the transition. The required equity trading began on October 14 and was completed on October 19. BlackRock rebalanced the portfolio using agency trading via external crossing and open market trades.

Final Allocation

The final allocation to target managers (using 10/17 prices) is as follows:

*As of 10/17	CMT (\$)	CMT (%)
Invesco	40,123,761	50.0%
TSW	40,162,636	50.0%
Total	80,286,397	100.0%

Performance

The potential overall cost of the transition, as measured by implementation shortfall, was estimated to fall between -43 basis points and -7 basis points (1 standard deviation). The actual implementation shortfall was -41 basis points of the legacy asset value, which fell inside of the 1 standard deviation estimate.

Summary Timeline of Main Events

<u>Date</u>	<u>Event</u>
7-Oct-14	The two legacy managers were terminated
10-Oct-14	BlackRock received the certified asset list from BNY Mellon and began managing the transition account
13-Oct-14	Currency hedge executed
14-Oct-14	Equity market trading began
19-Oct-14	Last day of market trading
21-Oct-14	Assets transferred to target manager accounts
22-Oct-14	First day of management for new managers

BlackRock managed the four dimensions of risk throughout the transition as follows:

Exposure Risk

What is it: Also known as investment risk, this is risk associated with undesirable market exposure, including factors that can have a negative effect on the value of the portfolio

How BlackRock addressed it

- Traded in a dollar neutral manner to ensure market exposure throughout the transition period
- Executed a currency hedge at the benchmark point to reduce currency exposure risk
- Managed market exposure around the global trading clock throughout the transition period
- Managed risk around market holidays during trading period

Execution Risk

What is it: Risk of using inadequate trading venues, especially for illiquid asset classes

How BlackRock addressed it:

- All transactions executed as agent and as fiduciary
- Crossed a portion of the security trades via external crossing venues
- Used multiple counterparties and venues to complete the required equity trades. Real time trade management provided through the regional BlackRock trading hubs (Hong Kong, London, San Francisco)
- Completed the required currency trades using a competitive bidding process across a pool of 20 brokers
- Utilized various underlying brokers and liquidity sources

Process Risk

What is it: Risk that costs are incurred due to communication gaps and unchecked assumptions

How BlackRock addressed it:

- Held conference calls with Callan Associates, BNY Mellon, and CMT to discuss timeline and other transition expectations
- Coordinated with Callan and CMT to ensure that legacy managers had appropriate instructions upon termination
- Worked with target managers to optimize buy lists around markets that were not open in the transition account/new manager accounts
- Coordinated with target managers to ensure that buy lists were properly received

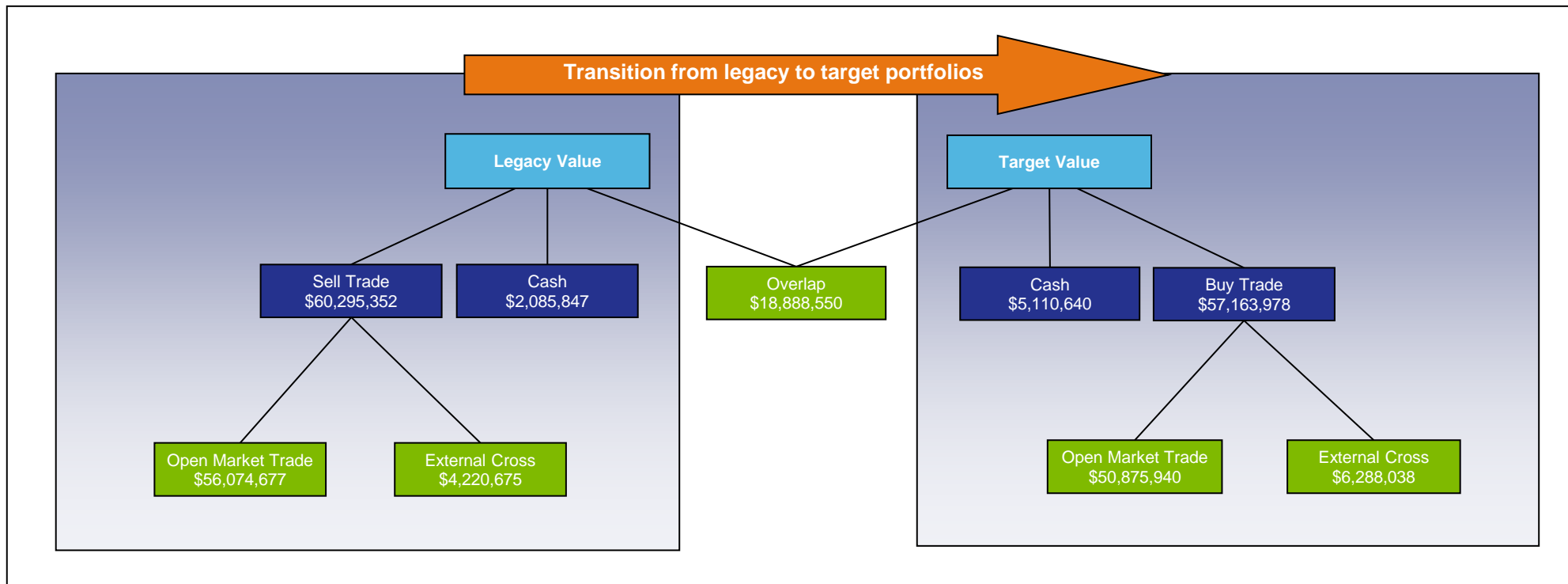
Operational Risk

What is it: Risk that operational details-such as account set up and reconciliation are over looked or delayed

How BlackRock addressed it:

- Monitored account to ensure all market trades settled
- Ensured the timely completion of asset transfers

The following schematic details the activity breakdown that took place when moving from the legacy to target portfolios.



The above results are aggregated in a table below and showed versus the projected activity breakdown on pre-transition analysis.

Pre-Transition Estimate			Actual Results			Difference
Trade Value		Total (%)	Trade Value	Total (%)		Total (%)
Overlap	38,235,392	24%	Overlap	37,777,100	24%	0%
External Cross	16,109,152	10%	External Cross	10,508,712	7%	-3%
Open Market Trade	103,474,638	66%	Open Market Trade	106,950,618	69%	3%
157,819,182		100%	155,236,430	100%		0%

Implementation shortfall, as measured by the return of the transition account versus the return of the target portfolio from October 13 through October 21, was -0.41%.

Start Date	10/13/2014
End Date	10/21/2014
	Return (%)
Transition Account	-0.04%
Target Portfolio	0.37%
Total Implementation Shortfall	-0.41%

Market Commentary (10/14)

Europe

European equity markets closed mixed to higher, having pared some of the earlier losses. Greece (5.7%) was the region's worst performer. Macro updates were under the spotlight with, notably, Germany ZEW investor sentiment and Eurozone industrial production widely missing expectations. The ZEW President Fuest commented that he cannot rule out negative growth in Q3, but downplayed concerns about a longer recession. Elsewhere, Catalonia decided against an independence referendum, but announced it would proceed with a "consultation of citizens" vote instead. Finally, the Irish Finance Ministry announced its 2015 budget, where changes to USC and income tax were among the main items, while the GDP growth forecast was revised up to 3.9%. Of note, the European Court of Justice began hearings on the legality of the ECB's OMT program, with no decision likely until next summer. Ireland +1.2%, Portugal +0.4%, Spain +0.3%, and Italy +0.2%.

Asia

Asian equity markets traded mixed. Markets traded broadly higher for most of the day before greater Chinese markets turned a corner late in the session. There was nothing specific cited for the turnaround in sentiment, as regional news flow was relatively quiet. There was some discussion that the Shanghai-Hong Kong stock connect could be delayed as a result of the pro-democracy protests in Hong Kong. However headlines surrounding the protests were subdued as it appears the standoff is coming to a close. There was some muted speculation on a rate cut from the Reserve Bank of India after a better-than-expected drop in prices seemed to compliment disappointing industrial production data. The Reserve Bank of Australia continued to attempt to talk down the currency, however the Aussie dollar strengthened vs the US dollar. Financials and resource plays were cited as driving the regional outperformance of the ASX.

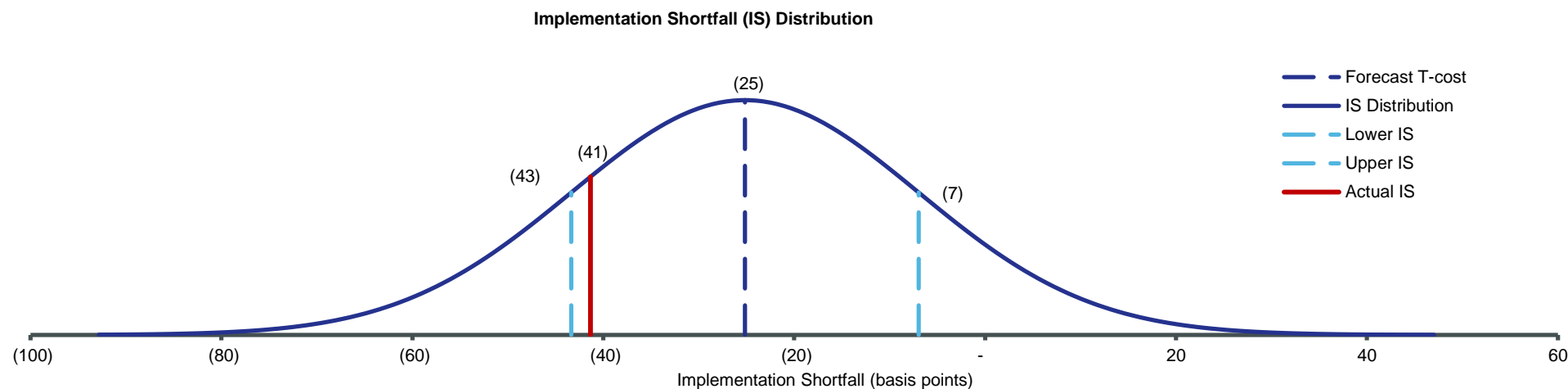
US

A rebound in U.S. stocks faded late in the session as energy shares slid with the price of oil, snuffing out most of an earlier rally in benchmark indexes led by industrial companies, airlines and banks. The Standard & Poor's 500 Index ended the session up less than 0.2 percent at 1,877.74 at 4 p.m. in New York after earlier climbing as much as 1.3 percent. The measure is down 6.6 percent from its record on Sept. 18 and capped its worst three-day retreat since 2011. The Dow Jones Industrial Average lost 5.75 points, or less than 0.1 percent, to 16,315.32, wiping out a 143 point earlier gain. Energy shares in the S&P 500 lost 1.2 percent as a group and extended their retreat from a June record to more than 20 percent. West Texas Intermediate crude oil slid 4.5 percent to \$81.91 a barrel, the lowest price in more than two years, after the International Energy Agency said demand will expand this year at the slowest pace since 2009. Brent crude sank to the lowest since 2010. U.S. equities had lost almost \$744 billion in value since Oct. 8 amid concern that slower global growth could hurt America's economic recovery just as the Federal Reserve gauges when to raise interest rates. The previous day's selloff accelerated as airlines sank on Ebola concerns and energy shares plunged after Brent crude dropped to the lowest in almost four years. The S&P 500 closed below its 200-day average for the first time in two years the previous day and slid to the lowest level since May.

Costs are broken down into their component parts in the tables and graphs below. Commissions and taxes are a known cost, whereas spread and market impact are estimates and opportunity cost acts as the balancing item. Opportunity cost is broken down further into (as relevant) gain or loss on security trades caused by market movements between the closing prices on the benchmark date and the time of execution.

Pre-Transition Estimate				Actual Results				Difference											
USD				BPS		Sales		Buys		Total		Total (bps)		USD		BPS			
Commission*				(55,495)		(7)		(25,669)		(26,085)		(51,754)		(6)		3,741		0	
Tax				(80,083)		(10)		(6,213)		(62,580)		(68,794)		(8)		11,289		1	
Spread				(35,474)		(4)		(17,670)		(19,129)		(36,800)		(5)		(1,326)		(0)	
Market Impact				(36,216)		(4)		(13,626)		(23,796)		(37,422)		(5)		(1,206)		(0)	
				(207,268)		(25)		(63,179)		(131,591)		(194,770)		(24)		12,498		1	
Opportunity Costs				150,298		18		(370,662)		224,308		(146,354)		(18)					
Currency Costs												5,183		1					
Total Implementation Shortfall				From		(56,970)		From		(7)		(433,841)		92,717		(335,941)		(41)	
				To		(357,566)		To		(43)									

* Refer to the Broker Trading Report and Revenue Transparency sections for more details.



Top Positive Contributors to Shortfall

Names	Securities Variance (USD)
HITACHI LTD.	23,611
SUNCOR ENERGY INC.	23,563
ENCANA	23,486
RIO TINTO PLC	18,955
MASTERCARD INC. CL A	17,469
ORIX CORP.	13,933
MS&AD INSURANCE GROUP HOLDINGS INC	13,119
SONY CORP.	10,826
SUMITOMO MITSUI FINANCIAL GROUP IN	10,683
JAPAN AIRLINES LTD	10,568
Total	166,214

Top Negative Contributors to Shortfall

Names	Securities Variance (USD)
TOKYO ELECTRON LTD.	(54,628)
TOYOTA MOTOR CORP.	(27,914)
ING GROEP NV	(22,663)
SOFTBANK CORP.	(20,732)
RYANAIR HOLDINGS PLC ADS	(16,504)
SUMITOMO MITSUI TRUST HOLDINGS INC	(15,833)
CANADIAN NATIONAL RAILWAY COMPANY	(14,399)
OLYMPUS CORP.	(13,880)
BURBERRY GROUP PLC	(13,758)
RECKITT BENCKISER GROUP PLC	(12,835)
Total	(213,146)

Shortfall by Sector *

Sectors	Net Transaction (USD)	Securities Variance (USD)
Consumer Discretionary	1,337,359	(61,198)
Consumer Staples	(472,032)	(40,014)
Energy	1,212,990	45,830
Financials	(1,299,446)	(60,095)
Health Care	(3,140,975)	(32,268)
Industrials	773,870	(47,764)
Info Tech	(401,015)	(38,310)
Materials	539,027	36,403
Telecom	(2,962,236)	(20,454)
Utilities	1,281,084	(2,705)
Total	(3,131,374)	(220,576)

* The sector classifications used are sourced from Bloomberg.

Shortfall by Region

Regions	Net Transaction (USD)	Securities Variance (USD)
Canada	2,042,750	32,168
Emerging Markets	3,825,651	(20,291)
Europe ex UK	(6,475,113)	(85,199)
Japan	(1,477,217)	(119,419)
Pacific Rim ex Japan	1,851,163	(28,398)
UK	483,740	(25,389)
US	(3,382,349)	25,952
Total	(3,131,374)	(220,576)

Shortfall by Currency

Currency	Net Transaction (USD)	Securities Variance (USD)
AUD	1,254,252	991
BRL	1,354,062	(7,605)
CAD	2,484,016	26,801
CHF	(4,315,611)	(24,017)
DKK	(751,225)	(1,860)
EUR	(2,670,116)	(42,601)
GBP	(909,674)	(11,027)
HKD	(1,051,655)	(17,585)
ILS	145,695	9,509
JPY	(1,477,217)	(119,419)
MXN	(85,190)	(1,185)
NOK	(187,567)	8
SEK	1,055,695	(7,957)
SGD	1,632,559	458
THB	586,503	(2,666)
TRY	502,868	2,797
USD	(698,769)	(25,218)
Total	(3,131,374)	(220,576)

Equity Broker Trading Report

Equity Broker	Notional Amount	# of Shares	Commissions
BES- CITIGROUP GLOBAL MARKETS INC.	1,889,855	246,487	1,701
BES- CITIGROUP GLOBAL MARKETS LIMITED	308,003	18,424	139
BES- CREDIT SUISSE SECURITIES (EUROPE) L	518,970	24,908	234
BES- CREDIT SUISSE SECURITIES (USA) LLC	10,578,396	565,714	2,653
BES- J.P. MORGAN SECURITIES LLC	58,789,722	4,262,841	26,682
BES- MERRILL LYNCH INTERNATIONAL	3,186,509	238,046	1,381
BES- MERRILL LYNCH, PIERCE, FENNER & SM	1,132,076	68,455	509
BES- MORGAN STANLEY & CO LLC	21,958,301	2,277,998	9,898
BES- MORGAN STANLEY & CO. INTERNATIONAL	460,609	25,669	207
BES- UBS SECURITIES LLC	17,164,672	2,676,911	7,988
COWEN & COMPANY LLC	840,357	14,678	147
DEUTSCHE BANK AG LONDON	132,683	4,226	100
GOLDMAN SACHS INTERNATIONAL	113,864	7,230	85
ITG INC.	385,313	61,208	32

Currency Broker Trading Report

Currency Broker	Notional Amount	Commissions
BANK OF NEW YORK MELLON	1,935,319	0
BNP PARIBAS SA	18,734,531	0
CITIBANK NA	2,586,026	0
STATE STREET BANK AND TRUST COMPANY	164,817	0

Total Commissions Paid

51,754

Transition Transparency Tool

	BLK U.S. Transitions
Do you earn revenue by trading foreign exchange?	0
Do you earn revenue from internal crossing?	0
Do you earn revenue by acting in a principal capacity?	0
Do you receive revenue from an affiliate who acts in a principal capacity?	0
Do you earn revenue from order-flow payment, or participate in soft-dollar arrangements?	0
TOTAL HIDDEN REVENUE:	0
BLACKROCK AGENCY COMMISSIONS	51,390

Additionally, BlackRock-managed pooled fund products may be used during the restructuring with prior client consent. Such pooled fund products may also be inherited from a legacy portfolio or be purchased for a target strategy. In such instances, BlackRock will earn an investment management fee on any such product (which is not included above).

29-Oct-2014

County and Municipal Capital Improvement Trust Fund (CMT)

Reporting Currency: USD

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